

**SHELBYVILLE POWER,
WATER & SEWERAGE SYSTEMS**

**ANNUAL FINANCIAL REPORT
AND SUPPLEMENTAL INFORMATION**

FOR THE YEAR ENDED JUNE 30, 2013

SHELBYVILLE POWER, WATER & SEWERAGE SYSTEMS
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INTRODUCTORY SECTION

**SHELBYVILLE POWER, WATER & SEWERAGE SYSTEMS
BOARD OF DIRECTORS AND MANAGEMENT
JUNE 30, 2013**

BOARD OF DIRECTORS

James Darden, Chairman

Rayburn Sudberry

Robert Finney, Secretary

Ervin Miller

Claudia Mallard

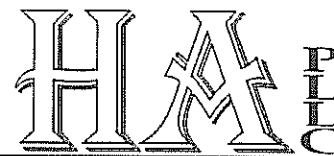
MANAGEMENT

David Crowell, General Manager

Garrett Gordon, Administrative Manager

FINANCIAL SECTION

HOUSHOLDER ARTMAN, PLLC
CERTIFIED PUBLIC ACCOUNTANTS



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Tullahoma, Tennessee 37388

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Shelbyville Power, Water and Sewerage Systems
Shelbyville, Tennessee

Report on the Financial Statements

We have audited the accompanying financial statements of Shelbyville Power, Water and Sewerage Systems of Shelbyville, Tennessee, as of and for the year ended June 30, 2013, and related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Shelbyville Power, Water and Sewerage Systems of the City of Shelbyville, Tennessee, as of June 30, 2013 and the changes in financial position, and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the Shelbyville Power, Water and Sewerage Systems, and do not purport to, and do not, present fairly the financial position of the City of Shelbyville, Tennessee, as of June 30, 2013, the changes in its financial position, or, where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages A-1 through A-7 and the schedule of funding progress on page 16 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Shelbyville Power, Water and Sewerage Systems' basic financial statements as a whole. The introductory section, financial schedules, and statistical section, are presented for purposes of additional analysis and are not a required part of the financial statements.

The financial schedules are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the financial schedules are fairly stated in all material respects, in relation to the basic financial statements as a whole.

The introductory and statistical sections have not been subject to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 18, 2013, on our consideration of Shelbyville Power, Water and Sewerage Systems' internal control over financial reporting and on our tests of its compliance with certain provision of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Shelbyville Power, Water and Sewerage Systems' internal control over financial reporting and compliance.

Hensholder Arthur PLLC

October 18, 2013

Shelbyville Power, Water & Sewerage Systems

Management's Discussion and Analysis

The Shelbyville Power, Water & Sewerage System is composed of three separate divisions that are financially accounted for on a separate basis. All divisions are reportable to the General Manager. The General Manager reports to a five-member board that is appointed by the Mayor and the City Council of the City of Shelbyville, TN. The following is a discussion and overview of the financial activities of the system for fiscal year ending June 30, 2013 as compared to fiscal year ending June 30, 2012.

FINANCIAL HIGHLIGHTS

- The assets of the Systems exceeded their liabilities at the close of the most recent fiscal year by \$72,881,136. Of this amount, \$27,277,701 may be used to meet the Systems ongoing obligations to suppliers and creditors.
- The Systems total net position increased by \$3,469,530.

USING THIS ANNUAL REPORT

This discussion and analysis is intended to serve as an introduction to the Systems' basic financial statements. This annual report consists of three components: Management's Discussion and Analysis; the Financial Statements; and Notes to the Financial Statements. The notes explain in more detail some of the information in the Financial Statements. This report also contains other required supplementary information in addition to the basic financial statements themselves.

Overview of the Financial Statements

The financial statements of the Systems report information about the Systems using accounting methods similar to those used by private sector companies. These statements offer short-term (current) and long-term (noncurrent) financial information about its activities. The *Statement of Net Position* includes all of the Systems' assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and obligations to creditors (liabilities). It also provides the basis for computing operating results, evaluating the capital structure of the Systems and assessing the liquidity and financial flexibility of the Systems. All of the current year's revenues and expenses are accounted for in the *Statement of Revenues, Expenses, and Changes in Net Position*. This statement measures the success of the Systems' operations over the past year, and can be used to determine whether the Systems have successfully recovered its costs through user fees and other charges, and to assess its profitability, and credit worthiness. The final required financial statement is the *Statement of Cash Flows*. The primary purpose of this statement is to provide information about the Systems' cash receipts, cash payments, and net changes in cash resulting from operations, investing, and capital and non-capital financing activities. It also provides information regarding sources of cash, uses of cash, and the change in the cash balance during the reporting period.

Shelbyville Power, Water & Sewerage Systems

Management's Discussion and Analysis

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the financial statements.

Other Information

In addition to the financial statements and accompanying notes, this report also presents certain required supplementary information as listed in the table of contents.

SYSTEM WIDE FINANCIAL ANALYSIS

Statement of Net Position

The statement of net position is very solid. Plant is being well maintained and improved based on needs forecast well into the future. Debt is being conservatively managed with debt service coverage leverage ratios that are more than adequate. Cash reserves are more than adequate for all systems.

The Systems' Net Position

(as of June 30,)

	2013	2012
Capital assets	\$ 72,849,651	\$ 68,127,699
Current and other assets	33,484,914	32,290,210
Total assets	106,334,565	100,417,909
Long-term liabilities	28,538,771	25,699,232
Other liabilities	4,914,658	5,307,071
Total liabilities	33,453,429	31,006,303
Net position:		
Net investment in capital assets	44,773,565	42,662,958
Restricted	829,870	1,741,622
Unrestricted	27,277,701	25,007,026
Total net position	\$ 72,881,136	\$ 69,411,606

Shelbyville Power, Water & Sewerage Systems

Management's Discussion and Analysis

Power System

Total power assets went from \$34,578,325 fiscal year ending June 30, 2012 to \$36,633,220 fiscal year ending June 30, 2013. Current assets went from \$15,964,648 to \$18,282,331. Plant, net of accumulated depreciation, decreased from \$18,087,045 to \$17,968,528. Other assets went from \$348,843 to \$365,926.

Total power liabilities went from \$4,762,497 to \$4,646,855. Current liabilities went from \$4,270,666 to \$4,134,032. Long-term liabilities went from \$491,831 to \$512,823.

Water System

Total water system assets went from \$23,647,692 to \$23,374,766. Current assets went from \$7,618,926 to \$7,126,470. Plant, net of accumulated depreciation, increased from \$14,987,870 to \$15,204,928.

Total liabilities decreased from \$3,664,396 to \$3,369,687. Long-term liabilities decreased from \$3,114,162 to \$2,964,030.

Sewer System

Total sewer system assets increased from \$42,191,892 to \$46,326,579. Current assets went from \$6,292,238 to \$6,557,526. Plant, net of accumulated depreciation, increased from \$35,052,784 to \$39,676,195.

Total liabilities went from \$22,579,410 to \$25,436,887. Long-term liabilities increased from \$22,093,239 to \$25,061,918.

Statement of Revenues, Expenses and Change in Net Position

The statement of revenues, expenses and changes in net position for each of the three divisions indicates healthy financial management and what we think is the appropriate balance between the spending necessary to deliver our services to the customer versus holding costs, and therefore rates, as low as practically possible. We are at or above peer level with respect to margin, efficiency and operating ratios.

Shelbyville Power, Water & Sewerage Systems

Management's Discussion and Analysis

The Systems' Changes in Net Position

(for the year ended June 30,)

	2013	2012
Operating revenues:		
Charges for services	\$ 41,344,426	\$ 41,578,982
Other operating income	712,495	720,093
Total operating revenues	42,056,921	42,299,075
Expenses:		
Purchased power	27,126,694	27,235,671
Operational expenses	6,566,086	6,170,321
Maintenance expenses	2,041,258	2,011,874
Depreciation and amortization	2,268,870	2,248,865
Total operating expenses	38,002,908	37,666,731
Operating income	4,054,013	4,632,344
Nonoperating revenues (expenses):		
Interest income	76,288	106,450
Interest expense	(243,260)	(284,462)
Other income (expense)	(32,758)	(4,266)
	(199,730)	(182,278)
Income before capital contributions	3,854,283	4,450,066
Transfer to City of Shelbyville	(594,687)	(567,875)
Capital contributions	209,934	116,786
Change in net position	3,469,530	3,998,977
Net position, beginning	69,411,606	65,412,629
Net position, ending	\$ 72,881,136	\$ 69,411,606

Power System

Income before capital contributions for the power system decreased from \$3,047,276 in fiscal year ending 2012 to \$2,765,224 in fiscal year ending 2013. Total operating revenue decreased from \$34,371,361 to \$34,231,008. This is a function of weather, growth in our customer base, rate increases, and unbilled revenue. Operational and maintenance expenses increased from \$3,220,650 in 2012 to \$3,489,853 in 2013. Interest expense decreased from \$38,855 to \$4,216.

Shelbyville Power, Water & Sewerage Systems

Management's Discussion and Analysis

Water System

Income before capital contributions decreased from \$281,558 to \$(1,067). Total operating revenue showed a decrease from \$3,988,988 to \$3,894,154. Operational and maintenance expenses increased from \$2,869,577 to \$2,931,426. Interest expense decreased from \$80,152 to \$79,266.

Sewer System

Income before capital contributions for the Sewer System went from \$1,121,232 in fiscal year ending 2012 to \$1,090,126 in fiscal year ending 2013. Sewer rates are based on water usage and bill at approximately 135% of the water rate. Sewer operational and maintenance expenses showed an increase from \$2,091,968 to \$2,186,065. Interest expense decreased from \$165,455 to \$159,778.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital assets – The Systems' investment in capital assets as of June 30, 2013 amounts to \$72,849,651 (net of accumulated depreciation). Depreciation charges for the year totaled \$2,246,969.

The Systems' Capital Assets (as of June 30,)

	2013	2012
Land and land rights	\$ 634,862	\$ 634,862
Structures and improvements	19,938,988	19,466,934
Distribution plant	66,871,343	65,514,028
Furniture and fixtures	889,483	827,901
Transportation equipment	2,320,529	2,275,679
Equipment	2,018,397	1,842,174
Construction in process	23,169,229	18,775,800
Less: Accumulated depreciation	(42,993,180)	(41,209,679)
	<u>\$ 72,849,651</u>	<u>\$ 68,127,699</u>

The total increase in the Systems' investment in capital assets for the current fiscal year was \$4,721,952 (6.93%).

Additional information on the Systems' capital assets can be found in Note 3 of this report.

Shelbyville Power, Water & Sewerage Systems

Management's Discussion and Analysis

Notes and bonds payable and other obligations – At the end of the current fiscal year, the Systems had total outstanding debt for notes, bonds, and other obligations of \$28,361,607.

The Systems' Notes and Bonds and Other Obligations Outstanding (as of June 30,)

	2013	2012
Bonds payable	\$ 5,655,000	\$ 5,880,000
Less: deferred loss	(312,090)	(331,080)
	<u>5,342,910</u>	<u>5,548,920</u>
Notes payable	22,963,176	20,141,415
Less: deferred loss	-	(594)
	<u>22,963,176</u>	<u>20,140,821</u>
Net OPEB obligation	<u>55,521</u>	<u>41,373</u>
Total outstanding debt	<u>\$ 28,361,607</u>	<u>\$ 25,731,114</u>

Power system notes, bonds and other obligation debt at fiscal year end 2013 was \$18,507.

Water system notes, bonds and other obligation debt was \$3,064,972.

Sewer system notes, bonds and other obligation debt totaled \$25,278,128.

Additional information on the Systems' outstanding debt can be found in Note 4 of this report.

Rates

Power system rates increased along with TVA rates quarterly during the fiscal year.

Water system rates increased as of January 1, 2010.

Sewer system rates increased as of January 1, 2011.

Shelbyville Power, Water & Sewerage Systems

Management's Discussion and Analysis

REQUESTS FOR INFORMATION

This financial report is designed to provide our customers and creditors with a general overview of the Systems' finances and to demonstrate the Systems' accountability for the money it receives. If you have questions about this report or need additional financial information, contact the General Manager at Shelbyville Power, Water and Sewerage Systems, 308 South Main Street, Shelbyville, TN 37160.

FINANCIAL STATEMENTS

SHELBYVILLE POWER, WATER SEWERAGE SYSTEMS
STATEMENT OF NET POSITION
JUNE 30, 2013

	Business-Type Activities			
	Power System	Water System	Sewerage System	Total
<u>Assets</u>				
Current Assets:				
Cash and cash equivalents	\$ 13,567,904	\$ 6,813,252	\$ 6,318,067	\$ 26,699,223
Accounts receivable, net of allowance for doubtful accounts	3,231,599	165,488	216,491	3,613,578
Unbilled revenue	1,040,117	-	-	1,040,117
Other receivables	78,067	145,865	1,152	225,084
Inventory	347,575	-	21,816	369,391
Due from other funds	10,670	-	-	10,670
Other assets	6,399	1,865	-	8,264
Total Current Assets	18,282,331	7,126,470	6,557,526	31,966,327
Restricted Assets:				
Restricted cash and cash equivalents	16,435	983,301	92,858	1,092,594
Total Restricted Assets	16,435	983,301	92,858	1,092,594
Capital Assets:				
Plant in service	32,190,199	30,419,104	53,233,528	115,842,831
Less accumulated depreciation	(14,221,671)	(15,214,176)	(13,557,333)	(42,993,180)
Total Property, Plant and Equipment	17,968,528	15,204,928	39,676,195	72,849,651
Other Assets:				
Energy conservation loans	365,926	-	-	365,926
Unamortized bond expense	-	60,067	-	60,067
Total Other Assets	365,926	60,067	-	425,993
Total Assets	\$ 36,633,220	\$ 23,374,766	\$ 46,326,579	\$ 106,334,565
<u>Liabilities</u>				
Current Liabilities:				
Accounts payable	\$ 2,707,656	\$ 26,102	\$ 49,432	\$ 2,783,190
Notes payable-current portion	-	-	210,828	210,828
Accrued expenses and other liabilities	20,166	327	-	20,493
Accrued interest	-	-	53,289	53,289
Due to other funds	-	10,670	-	10,670
Customer deposits	1,406,210	160,834	6,420	1,573,464
Total Current Liabilities	4,134,032	197,933	319,969	4,651,934
Liabilities Payable from Restricted Assets:				
Bonds payable-current portion	-	175,000	55,000	230,000
Accrued interest	-	32,724	-	32,724
Total Liabilities Payable from Restricted Assets	-	207,724	55,000	262,724
Long-Term Debt:				
Conservation-TVA Program	365,926	-	-	365,926
Accrued vacation	128,390	74,058	49,618	252,066
Bonds payable, net of deferred loss on refunding	-	2,871,465	2,241,445	5,112,910
Notes payable-noncurrent portion, net	-	-	22,752,348	22,752,348
Net OPEB liability	18,507	18,507	18,507	55,521
Total Long-Term Debt	512,823	2,964,030	25,061,918	28,538,771
Total Liabilities	4,646,855	3,369,687	25,436,887	33,453,429
<u>Net Position</u>				
Net investment in capital assets	17,968,528	12,333,463	14,471,574	44,773,565
Restricted	16,435	775,577	37,858	829,870
Unrestricted	14,001,402	6,896,039	6,380,260	27,277,701
Total Net Position	\$ 31,986,365	\$ 20,005,079	\$ 20,889,692	\$ 72,881,136

The accompanying notes are an integral part of this financial statement.

SHELBYVILLE POWER, WATER SEWERAGE SYSTEMS
STATEMENT OF REVENUE, EXPENSES AND CHANGES
IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2013

	Business-Type Activities			
	Power System	Water System	Sewerage System	Total
Operating Revenues:				
Charges for services	\$ 33,628,715	\$ 3,831,703	\$ 3,884,008	\$ 41,344,426
Forfeited discounts and penalties	199,376	31,783	47,751	278,910
Rental income	270,295	-	-	270,295
Other operating revenue	132,622	30,668	-	163,290
Total Operating Revenues	34,231,008	3,894,154	3,931,759	42,056,921
Operating Expense:				
Purchased power	27,126,694	-	-	27,126,694
Operational expenses	2,622,453	2,197,423	1,746,210	6,566,086
Maintenance expense	867,400	734,003	439,855	2,041,258
Depreciation and amortization	838,481	922,583	507,806	2,268,870
Total Operating Expenses	31,455,028	3,854,009	2,693,871	38,002,908
Operating Income	2,775,980	40,145	1,237,888	4,054,013
Nonoperating Revenues (Expenses):				
Interest income	26,218	38,034	12,016	76,288
Interest expense	(4,216)	(79,266)	(159,778)	(243,260)
Other income (expense)	(32,758)	-	-	(32,758)
Total Nonoperating Revenues (Expenses)	(10,756)	(41,212)	(147,762)	(199,730)
Income before capital contributions and transfers	2,765,224	(1,067)	1,090,126	3,854,283
Transfer to City of Shelbyville	(594,687)	-	-	(594,687)
Capital Contributions-other	-	22,850	11,100	33,950
Contributions in aid-grants	-	-	175,984	175,984
Changes in net position	2,170,537	21,783	1,277,210	3,469,530
Total net position, beginning	29,815,828	19,983,296	19,612,482	69,411,606
Total net position, ending	\$ 31,986,365	\$ 20,005,079	\$ 20,889,692	\$ 72,881,136

The accompanying notes are an integral part of this financial statement.

SHELBYVILLE POWER, WATER SEWERAGE SYSTEMS
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2013

	Business-Type Activities			Total
	Power System	Water System	Sewerage System	
Cash Flows from Operating Activities:				
Cash received from customers	\$ 34,063,057	\$ 4,067,957	\$ 4,081,550	\$ 42,212,564
Cash paid to suppliers	(28,659,871)	(1,719,094)	(1,433,867)	(31,812,832)
Cash paid to employees	(1,920,382)	(1,348,848)	(836,075)	(4,105,305)
Net Cash Provided by Operating Activities	3,482,804	1,000,015	1,811,608	6,294,427
Cash Flows for Capital Financing Activities:				
Capital contributions	-	22,850	187,084	209,934
Donated labor	(4,216)	-	-	(4,216)
Proceeds from issuance of long-term debt, net of issuance cost	-	-	3,219,037	3,219,037
Acquisition and construction of capital assets	(718,897)	(1,118,861)	(5,128,939)	(6,966,697)
Principal paid on long-term debt	(190,000)	(170,000)	(262,276)	(622,276)
Interest paid on long-term debt	(36,494)	(81,590)	(159,196)	(277,280)
Net Cash Used by Capital Financing Activities	(949,607)	(1,347,601)	(2,144,290)	(4,441,498)
Cash Flows from Non-Capital Financing Activities:				
Increase in customer deposits	116,252	7,761	-	124,013
Issuance of energy conservation loans	(17,656)	-	-	(17,656)
Payments to DREMC for transfer of members	(638)	-	-	(638)
Transfer to City of Shelbyville	(594,687)	-	-	(594,687)
Advances from TVA-Home Weatherization Program	17,656	-	-	17,656
Net Cash Provided (Used) by Non-Capital Financing Activities	(479,073)	7,761	-	(471,312)
Cash Flows from Investing Activities:				
Interest and other income	26,733	38,634	11,697	77,064
Net Cash Provided by Investing Activities	26,733	38,634	11,697	77,064
Net Increase in Cash and Cash Equivalents	2,080,857	(301,191)	(320,985)	1,458,681
Cash and Cash Equivalents, Beginning of Year	11,503,482	8,097,744	6,732,060	26,333,286
Cash and Cash Equivalents, End of Year	\$ 13,584,339	\$ 7,796,553	\$ 6,411,075	\$ 27,791,967
Cash and Cash Equivalents consist of:				
Unrestricted cash and cash equivalents	\$ 13,567,904	\$ 6,813,252	\$ 6,318,067	\$ 26,699,223
Restricted cash and cash equivalents	16,435	983,301	92,858	1,092,594
	\$ 13,584,339	\$ 7,796,553	\$ 6,410,925	\$ 27,791,817

Reconciliation of Operating Income to Net Cash Provided by Operations

Operating Income	\$ 2,775,980	\$ 40,145	\$ 1,237,888	\$ 4,054,013
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation and amortization	838,481	922,583	507,806	2,268,870
Provision for bad debts	86,598	15,019	22,815	124,432
Changes in assets and liabilities:				
Accounts receivable	(362,749)	167,893	149,652	(45,204)
Inventory	6,081	(4,527)	(4,402)	(2,848)
Other assets	(614)	-	-	(614)
Due from other funds	194,798	5,910	139	200,847
Accounts payable	(57,898)	(51,301)	(20,169)	(129,368)
Other liabilities	-	-	4,716	4,716
Due to other funds	(1,640)	(104,041)	(95,166)	(200,847)
Accrued expenses	3,767	8,334	8,329	20,430
Total adjustments	706,824	959,870	573,720	2,240,414
Net cash provided by operating activities	\$ 3,482,804	\$ 1,000,015	\$ 1,811,608	\$ 6,294,427

The accompanying notes are an integral part of this financial statement.

SHELBYVILLE POWER, WATER & SEWERAGE SYSTEMS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Shelbyville Power, Water and Sewerage Systems (Systems), of the City of Shelbyville, Tennessee, have been prepared in conformity with generally accepted accounting principles as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standards-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Board's accounting policies are described below:

Reporting Entity

Shelbyville Power, Water & Sewerage Systems comprises three enterprise funds of the City of Shelbyville, Tennessee. Accordingly, the accompanying financial statements are included in the basic financial statements of the City. The financial statements of Shelbyville Power, Water & Sewerage Systems encompass the operations of the Shelbyville Electric System, the Shelbyville Water System, and the Shelbyville Sewerage System, which operate under a grant of power by Chapter 465 of the Private Acts of Tennessee of 1939 and the Amended Charter of the City of Shelbyville, Tennessee.

Fund Accounting

The Shelbyville Power, Water and Sewerage Systems, proprietary fund types, account for activities similar to those found in the private sector, where the determination of net income is necessary or useful to sound financial administration.

Basis of Accounting

The accrual basis of accounting is utilized by the proprietary fund. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

The Systems have adopted GASB Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Government Entities that use Proprietary Fund Accounting." The Systems apply all applicable GASB pronouncements as well as Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) Opinions; issued on or before November 30, 1989 unless those pronouncements conflict with or contradict GASB Pronouncements. The Systems have elected not to apply FASB Statements and interpretations issued after November 30, 1989.

Proprietary funds distinguish between **operating** and **non-operating** items. Operating revenues and expenses generally result from providing services and producing and delivering goods and services in connection with the fund's principal ongoing operations and consistent primarily of charges to customers or departments, cost of sales and services, administrative expense and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the System's policy to use restricted resources first, then unrestricted resources as they are needed.

Fund equity

In 2013, the System adopted the provisions of the GASB Statement 63 that established reporting standards for deferred outflows of resources and deferred inflows of resources of all state and local governmental entities. Statement 63 amends the net assets reporting requirements in Statement 34 by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. As required by GASB 63, net position is presented in following three components:

- Net investment in capital assets - This component of net assets consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of debt is included in the same net assets component as the unspent proceeds.

SHELBYVILLE POWER, WATER & SEWERAGE SYSTEMS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- Restricted - This component of net position consists of constraints placed on net position use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulation of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- Unrestricted - This component of net position consists of all other net position that does not meet the definition of "restricted" or "net investment in capital assets."

Statement 63 defines deferred outflows of resources as a consumption of net assets by the government that is applicable to a future reporting period, and deferred inflows of resources as an acquisition of net assets by the government that is applicable to a future reporting period. Deferred outflows of resources have a positive effect on net position, similar to assets, and deferred inflows of resources have a negative effect on net position, similar to liabilities. At June 30, 2013 the System did not have deferred outflows of resources or deferred inflows of resources, as defined in the Statement 63, reported in the statement of net position. The effect of adoption of Statement 63 has no material impact on amounts reported in the financial statements.

Estimates

Preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash includes petty cash and amounts in demand deposits and money market accounts. Cash in excess of current requirements is invested in various interest-bearing accounts such as certificate of deposits with financial institutions and carried at cost. For purposes of the statement of cash flows all cash deposits and certificates of deposits with an original maturity of three months or less when acquired are considered to be cash equivalents.

Plant and Equipment

Capital assets of the Systems are recorded at historical cost. Depreciation of all exhaustible capital assets is charged as an expense against operations. Depreciation is computed using the straight-line method over estimated asset lives ranging from 3 to 50 years. Major additions and betterments are capitalized while expenditures for maintenance and repairs that do not add value to the asset or materially extend asset lives are charged to operations as incurred.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Net interest cost incurred due to the issuance of long-term debt during the construction of facilities is capitalized as part of the cost of such activities. Capitalized interest as of June 30, 2013 totaled \$564,018.

Inventory

Materials and supplies are stated at the lower of cost or market, with cost being determined on an average cost basis.

Tennessee Valley Authority (TVA) Energy Conservation Program

Shelbyville Power System is a fiscal intermediary for the TVA energy conservation program whereby loans are made to the System's customers to be used in connection with TVA's Residential Energy Services Program. Pursuant to the terms of an agreement with TVA, the energy conservation loans made to the System's customers are funded and guaranteed by TVA. These loans to customers are recorded as other assets, with the corresponding liability to TVA recorded as long-term debt.

SHELBYVILLE POWER, WATER & SEWERAGE SYSTEMS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Contributed Capital

The Systems have received federal and state grants to pay a portion of the costs of construction projects. The Water and Sewerage systems record tap fees in excess of the cost of installation.

Compensated Absences

Accumulated unpaid vacation and sick pay amounts are accrued when benefits vest to employees and an unpaid liability is reflected as compensated absences payable.

Bond Discounts/Issuance Costs

Bond discounts and issuance costs are deferred and amortized over the term of the bonds using the straight-line method. Bond discounts are presented as a reduction of the face amount of bonds payable whereas issuance costs are recorded as deferred charges.

Accounts Receivable

Customer utility accounts receivable of the Utility Fund is presented net of an allowance for uncollectible accounts of \$141,446. Bad debt expense for the current year is \$124,432. Accounts receivable are reported at the amount management expects to collect from outstanding balances. Differences between the amount due and the amount management expects to collect are reported in the results of operations of the year in which those differences are determined, with an offsetting entry to a valuation allowance for accounts receivable. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. The Systems use the reserve method, based upon a review of the current status of receivables and historical experience, in determining bad debt expense.

Unbilled Revenue

The Electric System has unbilled revenue of \$1,040,117 as of June 30, 2013. The Water and Sewerage Systems have followed the practice of not recording unbilled revenue. The effect on the financial statements is not material.

Prepaid Items

Payments made to vendors that will benefit periods beyond the end of the current calendar year are recorded as prepaid items.

Date of Management's Subsequent Review

Management has evaluated subsequent events through October 18, 2013, which is the date the financial statements were available to be issued.

NOTE 2 - CASH AND CASH EQUIVALENTS

The Board is authorized by policy to invest funds that are not immediately needed in: United States Treasury Bills, Bonds and Notes, The State of Tennessee Local Government Investment Pool, most bonds issued by U.S. Government Agencies, bonds of commercial entities and other investments such as repurchase agreements and commercial paper.

SHELBYVILLE POWER, WATER & SEWERAGE SYSTEMS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 2 - CASH AND CASH EQUIVALENTS (Continued)

A. Deposits

Custodial credit risk is the risk that in the event of bank failure, the Board's deposits may not be returned to it. As of June 30, 2013, all deposits were collateralized. At June 30, 2013, the carrying amount of the Systems' deposits was \$27,791,817 and the amount of the banks balances was \$29,692,096. Of the banks balances, \$1,500,000 was covered by Federal depository insurance, and \$8,206,762 was collateralized with securities pledged that comply with statutes as acceptable collateral, and \$19,985,334 was collateralized by the banks participation in the Tennessee State Collateral Pool.

NOTE 3 - CAPITAL ASSETS

A summary of the changes in capital assets for the year ended June 30, 2013 is as follows:

	Balance July 1, 2012	Additions	Reclassifications and Retirements	Balance June 30, 2013
Capital assets not being depreciated:				
Land and land rights	\$ 634,862	\$ -	\$ -	\$ 634,862
Construction in process	18,775,800	7,082,525	(2,689,096)	23,169,229
	<u>19,410,662</u>	<u>7,082,525</u>	<u>(2,689,096)</u>	<u>23,804,091</u>
Capital assets being depreciated:				
Structures and improvements	19,466,934	472,054	-	19,938,988
Distribution plant	65,514,028	2,088,518	(731,203)	66,871,343
Furniture and fixtures	827,901	61,582	-	889,483
Transportation equipment	2,275,679	44,850	-	2,320,529
Equipment	1,842,174	205,223	(29,000)	2,018,397
	<u>89,926,716</u>	<u>2,872,227</u>	<u>(760,203)</u>	<u>92,038,740</u>
Less accumulated depreciation:				
Structures and improvements	(5,389,576)	(581,964)	-	(5,971,540)
Distribution plant	(31,133,159)	(1,541,028)	434,466	(32,239,721)
Furniture and fixtures	(740,719)	(72,704)	-	(813,423)
Transportation equipment	(2,134,126)	(8,765)	-	(2,142,891)
Equipment	(1,812,099)	(42,506)	29,000	(1,825,605)
	<u>(41,209,679)</u>	<u>(2,246,967)</u>	<u>463,466</u>	<u>(42,993,180)</u>
Total capital assets, being depreciated net	<u>48,717,037</u>	<u>625,260</u>	<u>(296,737)</u>	<u>49,045,560</u>
Total capital assets, net	<u>\$ 68,127,699</u>	<u>\$ 7,707,785</u>	<u>\$ (2,985,833)</u>	<u>\$ 72,849,651</u>

Depreciation expense and amounts charged to construction in process for the year ended June 30, 2013 for the three systems are as follows:

	Total	Charged to Other Accounts	Expense Amount
Power	\$ 839,486	\$ 2,073	\$ 837,413
Water	901,805	-	901,805
Sewerage	505,678	-	505,678
	<u>\$ 2,246,969</u>	<u>\$ 2,073</u>	<u>\$ 2,244,896</u>

SHELBYVILLE POWER, WATER & SEWERAGE SYSTEMS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 4 - BONDS, NOTES, AND OTHER OBLIGATIONS

The following is a summary of debt transactions for the year ended June 30, 2013:

	<u>Oustanding July 1, 2012</u>	<u>Additions</u>	<u>Retirements</u>	<u>Oustanding June 30, 2013</u>
<u>Bonds Payable</u>				
Water System Refunding				
Bonds, Series 2003	\$ 265,000	\$ -	\$ (130,000)	\$ 135,000
	<u>265,000</u>	<u>-</u>	<u>(130,000)</u>	<u>135,000</u>
Water and Sewer Revenue and				
Tax Bonds, Series 2007	2,405,000	-	(55,000)	2,350,000
Less: Deferred Loss	<u>(55,684)</u>	<u>2,128</u>	<u>-</u>	<u>(53,556)</u>
	<u>2,349,316</u>	<u>2,128</u>	<u>(55,000)</u>	<u>2,296,444</u>
Water System Refunding				
Tax Bonds, Series 2011	3,210,000	-	(40,000)	3,170,000
Less: Deferred Loss	<u>(275,396)</u>	<u>16,862</u>	<u>-</u>	<u>(258,534)</u>
	<u>2,934,604</u>	<u>16,862</u>	<u>(40,000)</u>	<u>2,911,466</u>
	<u>3,199,604</u>	<u>16,862</u>	<u>(170,000)</u>	<u>5,342,910</u>
<u>Notes Payable</u>				
Power System Revenue and Tax				
Refunding Notes, Series 2002	190,000	-	(190,000)	-
Less: Deferred Loss	<u>(594)</u>	<u>594</u>	<u>-</u>	<u>-</u>
	<u>189,406</u>	<u>594</u>	<u>(190,000)</u>	<u>-</u>
Sewerage System - Tennessee				
Revolving Loan Fund	3,511,087	-	(207,276)	3,303,811
Sewerage System - Tennessee				
Revolving Loan Fund	16,440,328	3,219,037	-	19,659,365
	<u>20,140,821</u>	<u>3,219,631</u>	<u>(397,276)</u>	<u>22,963,176</u>
<u>Other</u>				
Net OPEB Obligation:				
Power	13,791	4,716	-	18,507
Water	13,791	4,716	-	18,507
Sewer	<u>13,791</u>	<u>4,716</u>	<u>-</u>	<u>18,507</u>
	<u>41,373</u>	<u>14,148</u>	<u>-</u>	<u>55,521</u>
Total bonds, notes and other obligations	<u>\$ 23,381,798</u>	<u>\$ 3,250,641</u>	<u>\$ (567,276)</u>	<u>\$ 28,361,607</u>

SHELBYVILLE POWER, WATER & SEWERAGE SYSTEMS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 4 - BONDS, NOTES, AND OTHER OBLIGATIONS (Continued)

Bonds payable as of June 30, 2013:	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Original Amount</u>	<u>Outstanding</u>
Water System - Revenue and Tax Improvement Bonds, Series 2003	2 - 4.625%	8/1/2013	\$ 4,750,000	\$ 135,000
Water and Sewer Revenue and Tax Bonds, Series 2007	4 - 4.50%	8/1/2037	2,600,000	2,350,000
Water and Sewer Revenue and Tax Bonds, Series 2011	1.25-2.8%	8/1/2028	3,210,000	3,170,000
Notes payable as of June 30, 2012:				
Power System - Revenue and Tax Refunding Notes, Series 2002	3 - 4.75%	8/1/2012	3,385,000	-
Sewerage System - Tennessee Revolving Loan Fund	1.70%	6/30/2037	4,496,263	3,303,811
Sewerage System - Tennessee Revolving Loan Fund*	-	-	<u>1,153,750</u>	<u>19,659,365</u>
Total bonds and notes payable				<u><u>\$ 28,618,176</u></u>

*This is a construction loan and terms of the loan will be finalized when construction is complete.

The bonds are, among other things, secured by the revenues of the systems. In addition, the systems have complied with the bond resolution requirements as adopted by the Systems.

Annual debt service requirements for bonds and notes outstanding to maturity are as follows:

	<u>Bonds</u>		<u>Notes</u>		<u>Total</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2014	\$ 230,000	\$ 176,842	\$ 210,828	\$ 54,528	\$ 440,828	\$ 231,370
2015	240,000	170,463	214,440	50,916	454,440	221,379
2016	240,000	165,362	218,112	47,244	458,112	212,606
2017	245,000	160,224	221,856	43,500	466,856	203,724
2018	255,000	154,594	225,648	39,708	480,648	194,302
2019-2023	1,370,000	668,348	1,187,592	139,188	2,557,592	807,536
2024-2028	1,590,000	445,931	1,025,335	35,981	2,615,335	481,912
2029-2033	800,000	220,260	-	-	800,000	220,260
2034-2038	685,000	79,861	-	-	685,000	79,861
	<u>\$ 5,655,000</u>	<u>\$ 2,241,885</u>	<u>\$ 3,303,811</u>	<u>\$ 411,065</u>	<u>\$ 8,958,811</u>	<u>\$ 2,652,950</u>

*Since the terms of this loan have not been finalized, it is not included in the schedule above.

SHELBYVILLE POWER, WATER & SEWERAGE SYSTEMS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 5 - PENSION PLAN AND DEFERRED COMPENSATION

The Systems' defined benefit plan, "Shelbyville Power, Water, & Sewerage Systems" provides retirement and death benefits to plan members and beneficiaries. The Systems joined the Central Service Association Pension Plan (CSA), a cost sharing multiple employer defined benefit pension plan for utility systems in 1997. Benefits are determined by a formula using the member's average monthly earnings and years of service. A reduced retirement benefit is available to vested members who are age 55 and have 10 years of service. The CSA issues a publicly available financial report that includes the financial statements and required supplementary information for CSA. That report can be obtained by writing to CSA, P. O. Box 3480, Tupelo, Mississippi 38803-3480.

The Systems are required to contribute at an actuarially determined rate. The contribution requirements of plan members are established and may be amended by CSA. If a participant becomes totally disabled before termination of employment, he is 100% vested. After completing 5 years of service, an employee is entitled to 100% of his accrued benefit. The plan is available to employees after attaining age 24½ and completing 6 months of service. Market value of assets as of October 1, 2012 totaled \$12,426,972. Contributions totaled \$982,849 for both employer and employee portions. The covered payroll totaled \$3,651,682.

The Systems also offers employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan was adopted in November 1997. Participation in the plan is optional for employees who may defer a portion of their salary until future years. Deferred compensation is not available to employees until termination, retirement, death, or financial hardship. The financial statements of the Section 457 plan are not reported in these financial statements since the Systems do not have any administrative involvement nor does it perform the investing function for the plan. The amounts deferred are held in trust for the exclusive benefit of employees and is not accessible by the Systems or their creditors. No employer contributions were made for the year ended June 30, 2013.

NOTE 6 - CONTINGENT LIABILITIES AND COMMITMENTS

Under its power contract, effective as of August 15, 1979, the System is committed to purchase its electric power from the Tennessee Valley Authority. This contract expired in 1999, and an amendment was signed to extend the contract. The amendment continues the contract for a term not less than 5 years, subject to termination by either party, with not less than five years written notice. The rates paid for the power and energy supplied by TVA shall be in accordance with the provisions of the Wholesale Power Rate – Schedule WS.

The water system and four other water systems in the Upper Duck River area entered into an agreement with the Tennessee Valley Authority (TVA) whereby, commencing February 25, 1972, each water system began paying monthly to TVA five cents (\$.05) for each 1,000 gallons of water sold by it during the preceding month. The funds will go to return the Agencies' portion of the debt incurred to build the Normandy and Columbia reservoirs. Such payments shall be made regardless of the source of water sold and shall continue until a total of \$16,200,000 has been paid to TVA by the group. There has been no division of the total liability between the parties to the contract.

The Systems are party to legal proceedings which normally occur in governmental operations. According to management, any proceeding is unlikely to have a material adverse effect on the Systems, as a whole.

In connection with the Tennessee Valley Authority, the Power System makes loans to individuals wishing to make their homes more energy efficient. The system is required to use the funds, including repayments, in making further loans, or to reduce the advances to the system by TVA.

At June 30, 2013, Shelbyville, Power, Water and Sewerage Systems had several construction projects in process. The Systems take bids for these projects and awards construction contracts to various companies. See Note 10.

SHELBYVILLE POWER, WATER & SEWERAGE SYSTEMS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 7 - RISK MANAGEMENT

The Systems are exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Systems purchase commercial insurance for claims and for all other risks of loss. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

NOTE 8 - INTERFUND RECEIVABLES AND PAYABLES

Balances at June 30, 2013 are as follows:

Due to:	Due From:	
	Water	Total
Power	\$ 10,670	\$ 10,670
	<u>\$ 10,670</u>	<u>\$ 10,670</u>

The amounts due between funds represent payments made for operating expenses to be reimbursed by the applicable fund.

NOTE 9 - OTHER POST-EMPLOYMENT BENEFITS (OPEB)

Beginning in August 2006, in addition to the pension benefits described in Note 6, the Systems allow employees to continue health insurance between the ages of 62 and 65. The employee will pay the premium except for a small amount contributed by the Systems that will be based on years of service. The Systems will fund the benefits on a pay-as-you-go basis. Payments in the amount of \$2,478 were made during the year ended June 30, 2013.

Plan Description

Shelbyville Power Water & Sewerage System sponsors a single-employer post retirement medical plan. The plan provides medical, prescription and death benefits to eligible retirees and their spouses.

Funding Policy

The System intends to continue its policy of funding OPEB liabilities on a pay-go basis and to not pre-fund any unfunded annual required contribution as determined under GASB 45.

Annual OPEB Cost and Net OPEB Obligation

The System's annual other post-retirement benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The following table shows the components of the System's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the System's net OPEB obligation.

SHELBYVILLE POWER, WATER & SEWERAGE SYSTEMS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 9 - OTHER POST-EMPLOYMENT BENEFITS (OPEB) (Continued)

Components of the Net OPEB Obligation

Annual Required Contribution	\$ 18,189
Interest on Net OPEB Obligation	1,862
Adjustment to Annual Required Contribution	<u>(2,260)</u>
Annual OPEB Cost (Expense)	17,791
Contributions Made	<u>(3,643)</u>
Increase in Net Obligation	<u><u>\$ 14,148</u></u>
 Net OPEB Obligation (BOY)	 \$ 41,373
 Net OPEB Obligation (EOY)	 \$ 55,521

The System's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2012-2013 is as follows:

Fiscal Year Ended	Annual OPEB Cost	OPEB Cost Contributed	Net OPEB Obligation
6/30/2013	\$ 17,791	20.5%	\$ 55,521
6/30/2012	\$ 17,474	25.4%	\$ 41,373
6/30/2011	\$ 19,491	25.1%	\$ 28,333
6/30/2010	\$ 19,821	39.4%	\$ 13,739
6/30/2009	\$ 19,843	91.3%	\$ 1,724

Shelbyville Power Water & Sewerage Systems
Other Post-Retirement Benefits under GASB 45

Funded Status and Funding Progress

As of July 1, 2012 the most recent actuarial valuation date, the plan was 0% funded. The actuarial accrued liability for benefits was \$152,076 and the actuarial value of assets was \$0 resulting in an unfunded actuarial accrued liability (UAAL) of \$152,076. The covered payroll (annual payroll of active employees covered by the plan) was \$3,790,091 and the ratio of the UAAL to the covered payroll was 4.02%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

SHELBYVILLE POWER, WATER & SEWERAGE SYSTEMS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 9 - OTHER POST-EMPLOYMENT BENEFITS (OPEB) (Continued)

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on substantive plan (the plan as understood by the employer and the plan members) and include the type of benefits provided at the time of each valuation and the historical pattern of sharing the benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the July 1, 2012 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 4.5% investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments calculated based on the funded level of the plan assets at the valuation date, and an annual healthcare cost trend rate of 8% initially, reduced by the decrements to an ultimate rate of 5% after three years. The actuarial value of assets was determined using a standard balanced portfolio expectation for retirement of plan asset returns. The UAAL is being amortized as a level percentage of payroll on an open basis. The remaining amortization period at July 1, 2012 was 26 years.

NOTE 10 - CLEAN WATER STATE REVOLVING FUNDS

Beginning in 2007, the Sewerage System received funding for Sanitary Sewer System Improvements through the Clean Water State Revolving Fund. The total amount of funding is projected to be \$24,800,000. Total funds drawn as of June 30, 2013 total \$19,659,635. Funds received in year ended June 30, 2013 total \$3,219,037.

REQUIRED SUPPLEMENTAL INFORMATION

**SHELBYVILLE POWER, WATER AND SEWERAGE SYSTEMS
REQUIRED SUPPLEMENTARY INFORMATION
SELECTED PENSION INFORMATION**

SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Overfunded (Underfunded) AAL	Funded Ratio	Covered Payroll	Unfunded AAL as a Percentage of Covered Payroll
October 1, 2012	\$ 12,426,972	\$ 16,898,499	\$ (4,471,527)	73.54%	\$ 3,651,682	122.45%
October 1, 2011	11,610,515	15,813,338	(4,202,823)	73.42%	3,452,370	121.74%
October 1, 2010	11,077,162	15,155,093	(4,077,931)	73.09%	3,445,010	118.37%

OTHER INFORMATION

SCHEDULES

SHELBYVILLE POWER, WATER & SEWERAGE SYSTEMS
SCHEDULE OF ADDITIONS AND RETIREMENTS TO UTILITY PLANT
FOR THE YEAR ENDED JUNE 30, 2013

SHELBYVILLE POWER, WATER & SEWERAGE SYSTEM
SUMMARY OF FIXED ASSETS - COMBINED SYSTEMS

DESCRIPTION	COST				ACCUMULATED DEPRECIATION				
	July 1, 2012	Additions	Disposals	June 30, 2013	July 1, 2012	Depreciation	Disposals	Salvage	Adjustments
Land and land rights	\$ 634,862	\$ -	\$ -	\$ 634,862	\$ -	\$ -	\$ -	\$ -	\$ -
Structures and improvements	19,466,934	472,054	-	19,938,988	5,389,576	581,964	-	-	-
Distribution plant	65,514,028	2,088,518	(731,203)	66,871,343	31,133,159	1,541,028	(434,466)	-	-
Furniture & fixtures	827,901	61,582	-	889,483	740,719	72,704	-	-	-
Transportation equipment	2,275,679	44,850	-	2,320,529	2,134,126	8,765	-	-	-
Equipment	1,842,174	205,223	(29,000)	2,018,397	1,812,099	42,506	(29,000)	-	-
Construction in process	18,775,800	7,082,525	(2,689,896)	23,169,229	-	-	-	-	-
	<u>\$ 109,337,378</u>	<u>\$ 9,954,752</u>	<u>\$ (3,449,799)</u>	<u>\$ 115,842,831</u>	<u>\$ 41,209,679</u>	<u>\$ 2,246,967</u>	<u>\$ (463,466)</u>	<u>\$ -</u>	<u>\$ -</u>
									<u>\$ 42,993,180</u>

See accompanying accountants' report.

SHELBYVILLE POWER, WATER & SEWERAGE SYSTEMS
SCHEDULE OF ADDITIONS AND RETIREMENTS TO UTILITY PLANT
FOR THE YEAR ENDED JUNE 30, 2013

	COST					ACCUMULATED DEPRECIATION				
	July 1, 2012	Additions	Disposals	June 30, 2013	July 1, 2012	Depreciation	Disposals	Salvage	Adjustments	June 30, 2013
POWER SYSTEM:										
Land and land rights	\$ 277,359	\$ -	\$ -	\$ 277,359	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Structures and improvements	942,476	361,269	-	1,303,745	610,045	25,389	-	-	-	635,434
Distribution plant	26,525,833	830,951	(652,054)	26,704,730	10,511,221	750,684	(355,316)	-	-	10,906,589
Furniture & fixtures	665,407	32,758	-	698,165	693,309	63,414	-	-	-	756,723
GIS Mapping	75,238	-	-	75,238	-	-	-	-	-	-
Transportation equipment	1,479,003	29,900	-	1,508,903	1,479,002	-	-	-	-	1,479,002
Tools, shop and garage equipment	277,001	-	-	277,001	277,003	-	-	-	-	277,003
Laboratory equipment	6,312	-	-	6,312	-	-	-	-	-	6,312
Communications equipment	106,469	-	-	106,469	106,468	-	-	-	-	106,468
Miscellaneous equipment	54,141	-	-	54,141	54,140	-	-	-	-	54,140
Construction in process	1,415,306	600,465	(837,635)	1,178,136	-	-	-	-	-	-
Total	\$ 31,824,545	\$ 1,855,343	\$ (1,489,689)	\$ 32,190,199	\$ 13,737,500	\$ 839,487	\$ (355,316)	\$ -	\$ -	\$ 14,221,671

	COST					ACCUMULATED DEPRECIATION				
	July 1, 2012	Additions	Disposals	June 30, 2013	July 1, 2012	Depreciation	Disposals	Salvage	Adjustments	June 30, 2013
WATER SYSTEM:										
Land and land rights	\$ 323,925	\$ -	\$ -	\$ 323,925	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Structures and improvements	14,353,243	75,250	-	14,428,493	4,429,323	431,161	-	-	-	4,860,484
Purification system	477,202	-	-	477,202	141,363	19,088	-	-	-	160,451
Distribution plant	9,197,552	378	-	9,197,930	6,977,502	275,929	-	-	-	7,253,431
Consumer services	1,894,793	26,655	-	1,921,448	1,038,305	76,280	-	-	-	1,134,585
Meters	811,774	540,652	(77,486)	1,274,940	218,443	40,227	(77,487)	-	-	181,183
Hydrants	609,169	32,888	-	642,057	298,684	12,670	-	-	-	311,354
Furniture and fixtures	78,173	18,409	-	96,582	25,569	4,667	-	-	-	30,236
Transportation equipment	270,803	14,950	-	285,753	227,669	-	-	-	-	227,669
Lab equipment	23,671	13,289	-	36,960	14,507	296	-	-	-	14,803
Work equipment	1,014,620	185,034	(29,000)	1,170,654	1,014,620	41,485	(29,000)	-	-	1,027,105
Communication equipment	12,875	-	-	12,875	12,875	-	-	-	-	12,875
Construction in process	338,930	307,673	(96,318)	550,285	-	-	-	-	-	-
Total	\$ 29,406,730	\$ 1,215,178	\$ (202,804)	\$ 30,419,104	\$ 14,418,860	\$ 901,803	\$ (106,487)	\$ -	\$ -	\$ 15,214,176

	COST					ACCUMULATED DEPRECIATION				
	July 1, 2012	Additions	Disposals	June 30, 2013	July 1, 2012	Depreciation	Disposals	Salvage	Adjustments	June 30, 2013
SEWERAGE SYSTEM:										
Land and land rights	\$ 33,578	\$ -	\$ -	\$ 33,578	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Structures and improvements	4,171,215	35,535	-	4,206,750	350,208	125,414	-	-	-	475,622
Electrical pumping equipment	6,155,013	-	-	6,155,013	6,155,012	-	-	-	-	6,155,012
Distribution plant	19,767,454	656,994	(1,663)	20,422,785	5,772,629	366,150	(1,663)	-	-	6,137,116
Furniture & fixtures	84,221	10,415	-	94,736	21,841	4,623	-	-	-	26,464
Transportation equipment	525,873	-	-	525,873	427,455	8,765	-	-	-	436,220
Tools and work equipment	302,143	6,900	-	309,043	297,243	-	-	-	-	297,243
Communications equipment	8,658	-	-	8,658	8,658	-	-	-	-	8,658
Miscellaneous equipment	36,284	-	-	36,284	20,273	725	-	-	-	20,998
Construction in process	17,021,564	6,174,387	(1,755,143)	21,440,808	-	-	-	-	-	-
Total	\$ 48,106,103	\$ 6,884,231	\$ (1,756,806)	\$ 53,233,528	\$ 13,053,319	\$ 505,677	\$ (1,663)	\$ -	\$ -	\$ 13,557,333

See accompanying accountants' report.

**SHELBYVILLE POWER, WATER & SEWERAGE SYSTEMS
SCHEDULE OF DEBT SERVICE REQUIREMENTS - NOTES PAYABLE
POWER & SEWERAGE SYSTEMS
FOR THE YEAR ENDED JUNE 30, 2013**

**Sewerage System - Tennessee Revolving Loan Fund
Capital Outlay Note
SRF 2003-172**

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 210,828	\$ 54,528	\$ 265,356
2015	214,440	50,916	265,356
2016	218,112	47,244	265,356
2017	221,856	43,500	265,356
2018	225,648	39,708	265,356
2019	229,524	35,832	265,356
2020	233,448	31,908	265,356
2021	237,444	27,912	265,356
2022	241,524	23,832	265,356
2023	245,652	19,704	265,356
2024	249,864	15,492	265,356
2025	254,148	11,208	265,356
2026	258,504	6,852	265,356
2027	262,819	2,429	265,248
	<u>\$ 3,303,811</u>	<u>\$ 411,065</u>	<u>\$ 3,714,876</u>

**Sewerage System - Tennessee Revolving Loan Fund
Capital Outlay Note**

Loan balance is \$19,659,365 as of June 30, 2013.

The payment schedule of the loan will be finalized when construction is completed.

See accompanying accountants' report.

SHELBYVILLE POWER, WATER & SEWER SYSTEMS
SCHEDULE OF DEBT SERVICE REQUIREMENTS - BONDS PAYABLE
WATER & SEWERAGE SYSTEMS
FOR THE YEAR ENDED JUNE 30, 2013

<u>Year</u>	<u>Water and Sewer Revenue and Tax Refunding and Improvement Bonds, Series 2003</u>			<u>Water and Sewer Revenue and Tax Bonds Series 2007</u>			<u>Water and Sewer Revenue and Tax Bonds Series 2011</u>			<u>Total</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 135,000	\$ 2,430	\$ 137,430	\$ 55,000	\$ 100,507	\$ 155,507	\$ 40,000	\$ 73,905	\$ 113,905	\$ 230,000	\$ 176,842	\$ 406,842
2015	-	-	-	60,000	98,208	158,208	180,000	72,255	252,255	240,000	170,463	410,463
2016	-	-	-	60,000	95,807	155,807	180,000	69,555	249,555	240,000	165,362	405,362
2017	-	-	-	60,000	93,407	153,407	185,000	66,817	251,817	245,000	160,224	405,224
2018	-	-	-	65,000	90,826	155,826	190,000	63,768	253,768	255,000	154,594	409,594
2019	-	-	-	65,000	88,062	153,062	190,000	60,205	250,205	255,000	148,267	403,267
2020	-	-	-	70,000	85,194	155,194	200,000	56,305	256,305	270,000	141,499	411,499
2021	-	-	-	75,000	82,114	157,114	200,000	52,105	252,105	275,000	134,219	409,219
2022	-	-	-	75,000	78,926	153,926	205,000	47,445	252,445	280,000	126,371	406,371
2023	-	-	-	80,000	75,632	155,632	210,000	42,360	252,360	290,000	117,992	407,992
2024	-	-	-	85,000	72,126	157,126	215,000	36,940	251,940	300,000	109,066	409,066
2025	-	-	-	85,000	68,514	153,514	220,000	31,175	251,175	305,000	99,689	404,689
2026	-	-	-	90,000	64,794	154,794	230,000	24,985	254,985	320,000	89,779	409,779
2027	-	-	-	95,000	60,863	155,863	235,000	18,357	253,357	330,000	79,220	409,220
2028	-	-	-	95,000	56,827	151,827	240,000	11,350	251,350	335,000	68,177	403,177
2029	-	-	-	100,000	52,683	152,683	250,000	3,875	253,875	350,000	56,558	406,558
2030	-	-	-	105,000	48,248	153,248	-	-	-	105,000	48,248	153,248
2031	-	-	-	110,000	43,518	153,518	-	-	-	110,000	43,518	153,518
2032	-	-	-	115,000	38,568	153,568	-	-	-	115,000	38,568	153,568
2033	-	-	-	120,000	33,368	153,368	-	-	-	120,000	33,368	153,368
2034	-	-	-	125,000	27,917	152,917	-	-	-	125,000	27,917	152,917
2035	-	-	-	130,000	22,243	152,243	-	-	-	130,000	22,243	152,243
2036	-	-	-	135,000	16,313	151,313	-	-	-	135,000	16,313	151,313
2037	-	-	-	145,000	10,013	155,013	-	-	-	145,000	10,013	155,013
2038	-	-	-	150,000	3,375	153,375	-	-	-	150,000	3,375	153,375
	<u>\$ 135,000</u>	<u>\$ 2,430</u>	<u>\$ 137,430</u>	<u>\$ 2,350,000</u>	<u>\$ 1,508,053</u>	<u>\$ 3,858,053</u>	<u>\$ 3,170,000</u>	<u>\$ 731,402</u>	<u>\$ 3,901,402</u>	<u>\$ 5,655,000</u>	<u>\$ 2,241,885</u>	<u>\$ 7,896,885</u>

See accompanying accountants' report.

SHELBYVILLE POWER, WATER & SEWERAGE SYSTEMS
SCHEDULE OF FEDERAL AND STATE FINANCIAL ASSISTANCE
FOR THE YEAR ENDED JUNE 30, 2013

Program Name	CFDA	Grant Period	Grant Award	Contract Number	Receivable (Deferred) July 1, 2012	Grant Receipts	Grant Expenditures/ Uses	Receivable (Deferred) June 30, 2013
FEDERAL FINANCIAL ASSISTANCE PROGRAMS:								
Capitalization Grant for Clean Water State Revolving Funds	66.458	to 4/5/2013	\$ 24,800,000	CWSRF 2007-206	\$ -	\$ -	\$ -	\$ -
CDBG Sewer Rehabilitation	14.228	10/21/10-9/30/15	\$ 450,000	GG-1137662-00	62,500	(238,484)	175,984	-
					62,500	(238,484)	175,984	-
STATE FINANCIAL ASSISTANCE PROGRAMS:								
Capitalization Grant for Clean Water State Revolving Funds	-	to 4/5/2013	\$ 24,800,000	CWSRF 2007-206	-	(3,219,037)	3,219,037	-
Total Federal and State Financial Assistance					\$ 62,500	\$ (3,457,521)	\$ 3,395,021	\$ -

Basis of Presentation:

Note 1: The accompanying Schedule of Expenditures of Federal Awards and State Financial Assistance summarizes the expenditures of Shelbyville Power, Water & Sewerage Systems under programs of the federal and state governments for the year ended June 30, 2013. The schedule is presented using the accrual basis of accounting.

See accompanying accountants' report.

STATISTICAL INFORMATION

**SHELBYVILLE POWER, WATER & SEWERAGE SYSTEMS
SCHEDULE OF UTILITY RATES IN FORCE AND AVERAGE NUMBER OF CUSTOMERS
JUNE 30, 2013**

Unaudited – See Accompanying Accountants' Report

ELECTRIC SYSTEM:

SCHEDULE FOR RESIDENTIAL RATES

CUSTOMER CHARGE	\$10.61
ENERGY CHARGE	\$0.09426 per KWH
FIRST 1000 KWH PER MONTH	\$104.87

SCHEDULE FOR COMMERCIAL RATES

SCHEDULES GSA (LESS THAN 50 KW)

IF CUSTOMER'S CURRENTLY EFFECTIVE CONTRACT DEMAND, IF ANY, OR ITS HIGHEST BILLING DEMAND DURING THE LATEST 12-MONTH PERIOD IS NOT MORE THAN 50 KW AND THE CUSTOMER'S MONTHLY ENERGY TAKINGS FOR ANY MONTH DURING SUCH PERIOD DO NOT EXCEED, 15,000 KILOWATT HOURS:

CUSTOMER CHARGE	\$15.77
ENERGY CHARGE	\$0.10451 per KWH

SCHEDULE FOR COMMERCIAL RATES/INDUSTRIAL RATES

SCHEDULES GSA (FROM 50 KW TO 1000 KW)

IF CUSTOMER'S CURRENTLY EFFECTIVE CONTRACT DEMAND, IF ANY, OR ITS HIGHEST BILLING DEMAND DURING THE LATEST 12-MONTH PERIOD IS GREATER THAN 50 KW BUT NOT MORE THAN 1000 KW AND THE CUSTOMER'S MONTHLY ENERGY TAKINGS FOR ANY MONTH DURING SUCH PERIOD EXCEED 15,000 KILOWATT HOURS:

CUSTOMER CHARGE	\$46.20
DEMAND CHARGE:	
FIRST 50 KW PER MONTH	NO CHARGE
OVER 50 KW PER MONTH	\$12.62 per KW
ENERGY CHARGE:	
FIRST 15,000 KWH PER MONTH	\$0.10599 per KWH
OVER 15,000 KWH PER MONTH	\$0.06411 per KWH

COMMERCIAL/INDUSTRIAL RATES

GSA3 (Greater than 1000 KW Contract or Highest 12 Month Measured KW greater than 1000 KW but Measured KW for month is less than 1000 KW)

CUSTOMER CHARGE	\$163.67
DEMAND CHARGE	
FIRST 1000 KW	\$11.42 per KW
OVER 1000 KW	\$11.53 per KW
ENERGY CHARGE	
ALL KWH	\$0.06742 per KWH

**SHELBYVILLE POWER, WATER & SEWERAGE SYSTEMS
SCHEDULE OF UTILITY RATES IN FORCE AND AVERAGE NUMBER OF CUSTOMERS
JUNE 30, 2013**

Unaudited – See Accompanying Accountants' Report

ELECTRIC SYSTEM (Continued):

**GSA3 (Greater than 1000 KW Contract or Highest 12 Month Measured KW greater than 1000 KW but Measured KW for month is greater than 1000 KW)
(Must be eligible for Small Manufacturing Credit)**

CUSTOMER CHARGE	\$163.67
DEMAND CHARGE	
FIRST 1000 KW	\$10.04 per KW
OVER 1000 KW	\$10.15 per KW
ENERGY CHARGE	
ALL KWH	\$0.06202 per KWH

MSB (Greater than 5000 KW Contract or Highest 12 Month Measured KW greater than 5000 and SIC is 20-39 but Measured KW for month is less than 5000 KW)

Manufacture Rates

CUSTOMER CHARGE	\$1,850.00
DEMAND CHARGE	
ALL KW	On-Peak \$16.45 per KW Off-Peak \$ 4.00 per KW
ENERGY CHARGE	
FIRST 425 KWH/KW	On-Peak (all KWH) \$0.08166 per KWH Off-Peak \$0.04737 per KWH (Example 425 * KW compared to measured KWH)
NEXT 195 KWH/KW	Off-Peak \$0.02871
ADDITIONAL KWH	Off-Peak \$0.01286

Facilities Rental (Delivery Point less than 46 KV)	\$0.93 per KW
Equipment Rental	1.5% of Installed Cost per month

SMSB (Greater than 5000 KW Contract or Highest 12 Month Measured KW greater than 5000 KW and SIC is 20-39 but Measured KW for month is less than 5000 KW)

Manufacture Rates

CUSTOMER CHARGE	\$1,850.00
DEMAND CHARGE	
ALL KW	\$18.74 per KW
ENERGY CHARGE	
ALL KWH	\$0.04206 per KWH

Facilities Rental (Delivery Point less than 46 KV)	\$0.93 per KW
Equipment Rental	1.5% of Installed Cost per month

**SHELBYVILLE POWER, WATER & SEWERAGE SYSTEMS
SCHEDULE OF UTILITY RATES IN FORCE AND AVERAGE NUMBER OF CUSTOMERS
JUNE 30, 2013**

Unaudited – See Accompanying Accountants' Report

ELECTRIC SYSTEM (Continued):

SECURITY LIGHTS

175 WATT M.V.	\$7.40
400 WATT M.V. (Flood or Cobra head)	\$14.46
200 WATT HPS	\$10.11
250 WATT HPS	\$11.65
100 WATT HPS	\$6.94

WATER SYSTEM:

RESIDENTIAL, COMMERCIAL, AND INDUSTRIAL:

	<u>Inside City</u>	<u>Outside City</u>
First 2,000 gallons	\$11.40 minimum charge	\$15.20 minimum charge
Next 8,000 gallons	4.30 per 1,000 gal	6.00 per 1,000 gal
Next 10,000 gallons	2.75 per 1,000 gal	3.85 per 1,000 gal
Next 30,000 gallons	2.40 per 1,000 gal	3.30 per 1,000 gal
Next 50,000 gallons	2.15 per 1,000 gal	3.00 per 1,000 gal
Over 100,000 gallons	2.05 per 1,000 gal	2.65 per 1,000 gal

An additional \$.05 per 1,000 gallons for Duck River Agency charge is included in billing, but is not reflected in the above rates.

UTILITY DISTRICTS:

Flat Creek Water Co-op:

First 6,000,000 gallons	Inside Rate
Over 6,000,000 gallons	\$2.75 per 1,000 gal

SPRINKLER CONNECTIONS:

Valve heads or fire hydrants	\$23.60 per month
City fire hydrants	10.30 per month

SHELBYVILLE POWER, WATER & SEWERAGE SYSTEMS
SCHEDULE OF UTILITY RATES IN FORCE AND AVERAGE NUMBER OF CUSTOMERS
JUNE 30, 2013

Unaudited – See Accompanying Accountants' Report

SEWERAGE SYSTEM:

	<u>Inside City</u>	<u>Outside City</u>
First 2,000 gallons	\$16.70 minimum charge	\$21.50 minimum charge
Next 8,000 gallons	7.40 per 1,000 gal	9.55 per 1,000 gal
Next 10,000 gallons	5.75 per 1,000 gal	7.00 per 1,000 gal
Next 30,000 gallons	5.10 per 1,000 gal	6.15 per 1,000 gal
Next 50,000 gallons	4.75 per 1,000 gal	5.75 per 1,000 gal
Over 100,000 gallons	4.40 per 1,000 gal	5.50 per 1,000 gal

Average number of customers for fiscal year 2013:

Power System	9,811
Water System	8,783
Sewerage System	7,981

SHELBYVILLE POWER, WATER AND SEWERAGE SYSTEM
AWWA REPORTING WORKSHEET
JUNE 30, 2013

AWWA WCC Free Water Audit Software: Reporting Worksheet

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WAS v4.2

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Water Audit Report for: **SHELBYVILLE POWER, WATER & SEWERAGE SYSTEMS**
 Reporting Year: **2013** 7/2012 - 6/2013

Please enter data in the white cells below. Where available, metered values should be used; if metered values are unavailable please estimate a value. Indicate your confidence in the accuracy of the input data by grading each component (1-10) using the drop-down list to the left of the input cell. Hover the mouse over the cell to obtain a description of the grades

All volumes to be entered as: MILLION GALLONS (US) PER YEAR

WATER SUPPLIED

<< Enter grading in column 'E'

Volume from own sources:	<input type="text" value="9"/>	<input type="text" value="1,332.473"/>	Million gallons (US)/yr. (MG/Yr)
Master meter error adjustment (enter positive value):	<input type="text" value="4"/>	<input type="text" value="26.650"/>	under-registered MG/Yr
Water imported:	<input type="text" value="n/a"/>		MG/Yr
Water exported:	<input type="text" value="n/a"/>		MG/Yr
WATER SUPPLIED:		1,359.123	MG/Yr

AUTHORIZED CONSUMPTION

Billed metered:	<input type="text" value="9"/>	<input type="text" value="1,040.330"/>	MG/Yr
Billed unmetered:	<input type="text" value="n/a"/>		MG/Yr
Unbilled metered:	<input type="text" value="7"/>	<input type="text" value="34.923"/>	MG/Yr
Unbilled unmetered:	<input type="text" value="7"/>	<input type="text" value="33.200"/>	MG/Yr
AUTHORIZED CONSUMPTION:		1,108.453	MG/Yr

Click here: [?](#)
for help using option buttons below

Pcnt: Value:

Use buttons to select percentage of water supplied OR value

WATER LOSSES (Water Supplied - Authorized Consumption)

MG/Yr

Apparent Losses

Unauthorized consumption: MG/Yr

Default option selected for unauthorized consumption - a grading of 5 is applied but not displayed

Customer metering inaccuracies: MG/Yr

Systematic data handling errors: MG/Yr

Systematic data handling errors are likely, please enter a non-zero value; otherwise grade = 5

Apparent Losses:

Pcnt: Value:

Choose this option to enter a percentage of billed metered consumption. This is NOT a default value

Real Losses (Current Annual Real Losses or CARL)

Real Losses = Water Losses - Apparent Losses: MG/Yr

WATER LOSSES: MG/Yr

NON-REVENUE WATER

NON-REVENUE WATER: MG/Yr

= Total Water Loss + Unbilled Metered + Unbilled Unmetered

SYSTEM DATA

Length of mains:	<input type="text" value="10"/>	<input type="text" value="202.0"/>	miles
Number of active AND inactive service connections:	<input type="text" value="9"/>	<input type="text" value="9,211"/>	
Connection density:	<input type="text" value="n"/>	<input type="text" value="46"/>	conn./mile main
Average length of customer service lines:	<input type="text" value="7"/>	<input type="text" value="27.0"/>	ft
Average operating pressure:	<input type="text" value="7"/>	<input type="text" value="74.0"/>	psi

(pipe length between curbstop and customer meter or property boundary)

COST DATA

Total annual cost of operating water system:	<input type="text" value="10"/>	<input type="text" value="53,829,894"/>	\$/Yr
Customer retail unit cost (applied to Apparent Losses):	<input type="text" value="8"/>	<input type="text" value="53.74"/>	\$/1000 gallons (US)
Variable production cost (applied to Real Losses):	<input type="text" value="10"/>	<input type="text" value="52,891.79"/>	\$/Million gallons

PERFORMANCE INDICATORS

Financial Indicators

Non-revenue water as percent by volume of Water Supplied:	<input type="text" value="23.5%"/>
Non-revenue water as percent by cost of operating system:	<input type="text" value="24.9%"/>
Annual cost of Apparent Losses:	<input type="text" value="\$137,082"/>
Annual cost of Real Losses:	<input type="text" value="\$618,693"/>

Operational Efficiency Indicators

Apparent Losses per service connection per day:	<input type="text" value="10.90"/>	gallons/connection/day
Real Losses per service connection per day:	<input type="text" value="63.66"/>	gallons/connection/day
Real Losses per length of main per day:	<input type="text" value="N/A"/>	
Real Losses per service connection per day per psi pressure:	<input type="text" value="0.86"/>	gallons/connection/day/psi
Unavoidable Annual Real Losses (UARL):	<input type="text" value="76.38"/>	million gallons/year
From Above, Real Losses = Current Annual Real Losses (CARL):	<input type="text" value="214.02"/>	million gallons/year
Infrastructure Leakage Index (ILI) (CARL/UARL):	<input type="text" value="2.80"/>	

* only the most applicable of these two indicators will be calculated

WATER AUDIT DATA VALIDITY SCORE:

***** YOUR SCORE IS: 79 out of 100 *****

A weighted scale for the components of consumption and water loss is included in the calculation of the Water Audit Data Validity Score

PRIORITY AREAS FOR ATTENTION:

Based on the information provided, audit accuracy can be improved by addressing the following components:

- 1: Master meter error adjustment
- 2: Volume from own sources
- 3: Unauthorized consumption

For more information, click here to see the Grading Matrix worksheet

**SHELBYVILLE POWER, WATER & SEWERAGE SYSTEMS
SCHEDULE OF OFFICIALS AND BONDS
FOR THE YEAR ENDED JUNE 30, 2013**

<u>Official</u>	<u>Name</u>	<u>Bond amount</u>
All Board Members	Each Member	\$ 5,000
General Manager	David Crowell	\$250,000
Administrative Manager	Garrett Gordon	\$250,000

INTERNAL CONTROL AND COMPLIANCE SECTION

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH *GOVERNMENT AUDITING STANDARDS***

Board of Directors
Shelbyville Power, Water & Sewerage Systems
Shelbyville, Tennessee

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Shelbyville Power, Water and Sewerage Systems, as of and for the year ended June 30, 2013, and the related notes to the financial statements and have issued our report thereon dated October 18, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Shelbyville Power, Water & Sewerage Systems' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Shelbyville Power, Water & Sewerage Systems' internal control. Accordingly, we do not express an opinion on the effectiveness of Shelbyville Power, Water & Sewerage Systems' internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Shelbyville Power, Water & Sewerage Systems' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standard*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Honigbolder Astman PLLC

October 18, 2013